

Electric Industry Restructuring in Massachusetts

Updated 4/1/02

Massachusetts implemented full electric competition on March 1, 1998 pursuant to the Electric Restructuring Act of 1997 (Chapter 164 of the Acts of 1997) and a series of Orders from the Department of Telecommunications and Energy (“MA DTE”).

Customer choice: Customers have been able to choose their generation supplier since March 1, 1998. Choice is available to all customers of the state’s four investor-owned utilities: Massachusetts Electric Company, NSTAR Electric, Western Massachusetts Electric Company, and Fitchburg Gas and Electric Company.

Standard Offer: A Standard Offer rate is available from the utilities for existing customers as of March 1, 1998 who have not chosen a competitive power supplier. The “Standard Offer” refers to the generation component of the bill. The Standard Offer prices are set out below.

Massachusetts Standard Offer Prices (¢/kWh)

| Company | 1998 | 1999 | 2000 | 2001 | | 2002 | |
|---------------------------------------|------|------|------|------------|-------------|--------------------|--------------------|
| | | | | Jan – June | July – Dec. | | |
| NSTAR Electric/ Boston Edison | 3.2 | 3.7 | 4.5 | 6.2 | 7.4 | Jan. – Mar. 6.4 | Apr. – Dec. 5.0 |
| NSTAR Electric/ Cambridge Electric | 2.8 | 3.5 | 3.8 | 5.1 | 6.4 | Jan. – Mar. 5.6 | Apr. – Dec. 4.2 |
| NSTAR Electric/ COM/Electric | 2.8 | 3.5 | 3.8 | 5.1 | 6.4 | Jan. – Mar. 5.6 | Apr. – Dec. 4.2 |
| Fitchburg Gas & Electric | 2.8 | 3.5 | 3.8 | 5.1 | 6.4 | 5.6 | |
| Massachusetts Electric | 3.2 | 3.7 | 3.8 | 5.4 | 6.6 | Jan. – June 5.6 | July – Dec. 4.2 |
| Western Mass. Electric | 2.8 | 3.1 | 4.6 | 7.3 | 7.3 | 4.8 | |

Note: As a result of a 1999 merger, the former Boston Edison, Cambridge Electric, and Commonwealth Electric are now all doing business under the name NSTAR Electric. However, Standard Offer pricing varies for customers of the three former companies, and so they are listed separately in the table above.

Updated Standard Offer prices are posted regularly on the web site of the Massachusetts Department of Telecommunications and Energy:

www.state.ma.us/dpu/restruct/competition/standardoffer.htm.

Default Service: Default Service is available from the utilities for new customers (after March 1, 1998) and customers that have switched to a competitive supplier and then back to utility service. Default Service is priced based on the market price for power, and at many utilities varies by customer class. The current Default Service prices are set out below.

Massachusetts Default Service Prices (¢/kWh)

| Company | Time Period | Res. | Com. | Ind. |
|--|------------------------|-------------|-------------|-------------|
| NSTAR Electric/ Boston Edison | Jan. 2002 to June 2002 | 6.4 | 6.6 | 6.5 |
| NSTAR Electric/ Cambridge Electric | Jan. 2002 to June 2002 | 6.1 | 6.2 | 6.2 |
| NSTAR Electric/ Commonwealth Electric | Jan. 2002 to June 2002 | 6.3 | 6.5 | 6.4 |
| Fitchburg Gas & Elec. | Dec. 2001 to May 2002 | 5.0 | 5.0 | 4.7 |
| Massachusetts Electric | May 2002 to Oct. 2002 | 6.2 | 6.5 | 5.2 |
| Western Mass. Elec. | Jan. 2002 to June 2002 | 7.6 | 7.6 | 7.6 |

Note: As a result of a 1999 merger, the former Boston Edison, Cambridge Electric, and Commonwealth Electric are now all doing business under the name NSTAR Electric. However, Default Service pricing varies for customers of the three former companies, and so they are listed separately in the table above.

Updated Default Service prices are posted regularly on the web site of the Massachusetts Department of Telecommunications and Energy:
www.state.ma.us/dpu/restruct/competition/index.htm#DEFAULT.

Savings: The Massachusetts restructuring law required that customers on the Standard Offer receive a rate reduction of at least 10% by March 1, 1998 and of at least 15% by September 1, 1999. The reduction is off of the entire bill, not just the generation portion. The baseline is August 1997 rates, adjusted for inflation. However, extraordinary changes in fuel prices have been treated as an exception to the required 15% reduction. In January 2001, the utilities were allowed to increase Standard Offer prices to pass through the large fuel price increases experienced in 2000. The 15% savings guarantee does not apply to Default Service customers or to customers that switch to competitive suppliers.

Stranded costs: Utilities may recover stranded costs, but must mitigate those costs. The utilities have divested their generating assets.

Billing and metering: Massachusetts has two billing options: 1) separate bills from the utility and the competitive supplier; or 2) a combined bill from the utility. The state does not allow a combined bill from the supplier. Metering is not competitive; only the utility may provide metering services.

Energy efficiency: The Electric Restructuring Act of 1997 established five years of funding for energy efficiency programs. In 2002, the Massachusetts legislature enacted Chapter 45 of the Acts of 2002, which extended funding for an additional five years.

Massachusetts Energy Efficiency Charge

| Year | Energy Efficiency Charge (¢/kWh) | Approximate Annual Funding (\$ million) |
|-------------|-------------------------------------|--|
| 1998 | 0.330 | 139 |
| 1999 | 0.310 | 132 |
| 2000 | 0.285 | 124 |
| 2001 | 0.270 | 117 |
| 2002 - 2007 | 0.250 | 110 |

Renewable Energy: The Electric Restructuring Act of 1997 created a Renewable Energy Fund to be administered by the Massachusetts Technology Park Corporation. The funding levels are as follows.

Massachusetts Renewable Energy Charge

| Year | Renewable Energy Charge (¢/kWh) | Approximate Annual Funding (\$ million) |
|-----------------|------------------------------------|--|
| 1998 | 0.050 | 17.5 |
| 1999 | 0.075 | 32.0 |
| 2000 | 0.100 | 43.5 |
| 2001 | 0.075 | 32.5 |
| 2002 and beyond | 0.050 | 22.0 |

Note:

1. For the period 1998 to 2002, an additional charge of 0.025 cents/kWh is added to the renewable energy charge. The funds collected through this additional charge are set aside for pollution control equipment on trash-to-energy facilities.
2. The charge was collected for only 10 months in 1998.

Municipal light plants: Municipal light plants are exempt from mandatory competition unless they choose to sell power outside their boundaries.

Switching Statistics: The Massachusetts Division of Energy Resources publishes statistics regarding the number of customers that have switched to a competitive power supplier.

Massachusetts Switching Statistics
as of 12/31/01 -- after 46 months of competition

| Customer Class | No. of Customers | % of Customers |
|----------------------------------|-------------------------|-----------------------|
| Residential | 5,451 | 0.2% |
| Small Commercial and Industrial | 5,112 | 2.1% |
| Medium Commercial and Industrial | 3,202 | 6.6% |
| Large Commercial and Industrial | 1,215 | 18.6% |
| <i>TOTAL</i> | <i>14,980</i> | <i>0.6%</i> |

The Division of Energy Resources publishes updated switching statistics on its website at: www.state.ma.us/doer/pub_info/migrate.htm.

Mergers: Since December 1998, four electric utility mergers have been announced involving Massachusetts companies.

National Grid Group, PLC, the United Kingdom's electric transmission company, acquired New England Electric System, parent company of Massachusetts Electric Company, Narragansett Electric Company (RI), and Granite State Electric Company (NH). As a result of the transaction, New England Electric System was renamed National Grid USA. The merger was announced on December 14, 1998, and closed on March 22, 2000. The final sale price was \$3.2 billion.

National Grid USA (formerly New England Electric System) acquired Eastern Utilities Associates, parent company of Eastern Edison Company (MA), Blackstone Valley Electric Company (RI), and Newport Electric Corporation (RI). As a result of the transaction, Eastern Utilities Associates' local electric companies merged into those of National Grid USA: Eastern Edison merged into Massachusetts Electric and Blackstone Valley Electric Company and Newport Electric Company merged into Narragansett Electric. The transaction was announced on February 1, 1999 and closed on April 19, 2000. The final sale price was \$642 million. The combined companies serve 1.2 million customers in Massachusetts and 560,000 customers in Rhode Island.

BEC Energy, parent company of Boston Edison Company, and Commonwealth Energy System, parent company of Commonwealth Electric Company, Cambridge Electric Light Company, and Commonwealth Gas Company, merged to form a new holding company, NSTAR. The transaction was announced December 7, 1998 and closed August 25, 1999. Initially, the four distribution companies continued to operate under their pre-merger names. In November 2000, the electric companies began operating under the name NSTAR Electric and the gas company under the name NSTAR Gas. NSTAR serves 1,040,000 electricity customers in 82 communities and 250,000 natural gas customers in 52 communities.

National Grid USA, parent of Massachusetts Electric (MA), Narragansett Electric (RI), and Granite State Electric (NH) acquired Niagara Mohawk (NY). The transaction was announced on September 5, 2000 and closed January 31, 2002. Niagara Mohawk will continue to operate under its current name. The sale price was approximately \$3 billion. The combined company is the eighth largest electric utility in the US and has approximately 3.3 million electricity customers and 540,000 natural gas customers.

Massachusetts Investor-Owned Electric Utilities

| Utility | No. of Customers | Web Site |
|--------------------------------|-------------------------|--|
| Massachusetts Electric | 1,196,000 | www.masselectric.com |
| NStar Electric | 1,082,000 | www.nstaronline.com |
| Western Massachusetts Electric | 200,000 | www.wmeco.com |
| Fitchburg Gas and Electric | 27,000 | www.unitil.com |

More Information

For more information, please contact:

Massachusetts Department of Telecommunications and Energy

One South Station

Boston, MA 02210

P: 617-305-3500

Website: www.state.ma.us/dpu

The website contains a list of licensed competitive suppliers and brokers, Standard Offer and Default Service prices, and the MA DTE's rules and orders concerning restructuring.

Massachusetts Division of Energy Resources

100 Cambridge St.

Boston, MA 02202

P: 617-727-4732

website: www.magnet.state.ma.us/doer

The website contains the Massachusetts electric restructuring law, data regarding customer switching to competitive suppliers, a Market Monitor Report regarding the development of the competitive electric market, and a report regarding energy efficiency activities in the state.

Consumer Education Program

Restructuring hotline: 888-758-4469 (Toll-free Massachusetts)

website: www.state.ma.us/thepower

The website contains an on-line consumer guide to electric restructuring.

Massachusetts Renewable Energy Trust

75 North Drive

Westborough, MA 01581

P: (508) 870-0312

website: www.mtpc.org/massrenew

The Massachusetts Renewable Energy Trust administers the Massachusetts Renewable Energy fund. The website contains information about the fund.